5-4-10, FACT CHECK: White House Falsely Claims Dodd Bill Ends "Too Big to Fail"

May 4, 2010

"Jerry, just remember, it's not a lie if you believe it." -- George Costanza

In what can only be described as an act of political projection, White House Communications Director Dan Pfeiffer today posted on the official blog a list of "Lobbyist Loopholes" to watch as the regulatory reform debate unfolds in the Senate, ambiguously highlighting one that he claims won't put an end to "Too Big to Fail." Read below to see what kind of misinformation is pushed out of the White House when they start believing their own spin.

White House Claim #1: "The key to preventing future bailouts is to end the problem of "Too Big to Fail."

FACT: Agreed. And thanks for promoting our argument.

White House Claim #2: "And the only way to do that is to make sure that we can shut down big financial firms in a swift, orderly way if they're on the brink of failure."

FACT: Both the Dodd and Frank bills fail on this count. The bills enable the FDIC to keep failed banks on life support and pay off their creditors and counterparties. Remember AIG? These bills will make backdoor bailouts of creditors and counterparties permanent. You do not need a bailout fund to wind down the operations of a firm. The enhanced bankruptcy approach proposed by House Republicans will end taxpayer bailouts and deny politicians the ability to categorize and protect their allies as "Too Big to Fail". The House Republican bill will end all bailouts by ensuring failed non-banks, no matter their size or their political connections, are sent to bankruptcy proceedings. Bankruptcy is a fair, transparent way to ensure failed non-banks do not rely on handouts from taxpayers or government guarantees when their risk taking goes bad.

White House Claim #3: "Of course, not everyone wants to see "Too Big to Fail" disappear, since it lets the biggest firms borrow money at lower cost and avoid the consequences of excessive risk-taking. But no one wants to be caught defending the status quo."

FACT: If Democrats want to put an end to "too big to fail," then why is it written into the Dodd and Frank bills? The trillion dollar bailout authority and funds in the House and Senate bills will create new Fannie and Freddie's in the financial markets since "too big to fail" companies will be viewed as having a government guarantee. This will promote systemic risk and undermine financial stability because the government will always step in to cover the losses at failed financial firms. Instead of providing a clear exit strategy from taxpayer funded bailouts, the Democrats' bills create a permanent bailout fund for these companies and extend federal guarantees and loans to those considered "too big to fail".

White House Claim #4: "So defenders of the status quo are using a sleight of hand: pushing to make the resolution process so unwieldy that it can never work. By proposing amendments that look tough but that make the resolution process unworkable, opponents of reform will try to save "Too Big to Fail" while pretending to kill it."

FACT: Actually, the Democrats are so eager to be the defenders of the status quo that they write into law the ad hoc policies that were designed to be short term solutions to the financial crisis. There is nothing in this bill that would prevent more AIG-style bailouts in the future. Republicans have, and continue to be, strongly opposed to bailouts and the "too big to fail" policies that have put taxpayers on the hook for unlimited amounts of funds.